REXALL DRUG AND CHEMICAL COMPANY

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CORPORATION FILE

ANNUAL REPORT 1962

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Board of Directors

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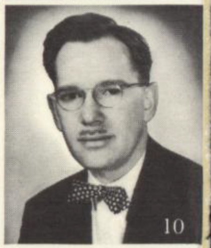
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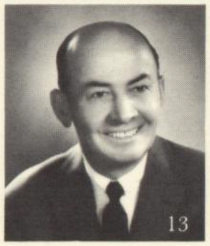
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REXALL DRUG AND CHEMICAL COMPANY

BOARD OF DIRECTORS

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2. ERNEST R. BREECH	*Chairman of the Board of Directors of Trans World Airlines, Inc.; Director of Ford Motor Company and other companies*
3. DONALD H. BREWER	*Vice President, Processing Group*
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6. ROLAND F. HALLETT	*Vice President and Treasurer*
7. ROBERT L. KING	*Vice President, Industrial and Public Relations*
8. RALPH M. KNIGHT	*Vice President, Chemical Group*
9. F. THATCHER LANE	*Director of Curtiss-Wright Corporation, Royal McBee Corporation and other companies*
10. GEORGE L. MAISON, M.D.	*Vice President, Ethical Drug Group*
11. STANLEY M. RUMBOUGH, Jr.	*Management Consultant, Director, Bowmar Instrument, Wallace Clark and Company, and other companies*
12. JAMES E. SHELTON	*Chairman Emeritus and Director of Security First National Bank, Los Angeles; Director of Southern California Edison Company, and other companies*
13. HOLMES TUTTLE	*President and Director of Holmes Tuttle Ford Sales, Inc., Beverly Lincoln-Mercury, Inc., Los Angeles*
14. HAMER WILSON	*Vice President, Tupperware*

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ERNEST R. BREECH
JAMES E. SHELTON
HOLMES TUTTLE

AUDIT COMMITTEE

JAMES E. SHELTON, *Chairman*
JOHN C. CORNELIUS
HOLMES TUTTLE

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JUSTIN DART	*President*
JOHN BOWLES	*Vice President, Proprietary Group*
DONALD H. BREWER	*Vice President, Processing Group*
GEORGE J. DALY	*Vice President, Accounting*
ROLAND F. HALLETT	*Vice President and Treasurer*
ROBERT L. KING	*Vice President, Industrial and Public Relations*
RALPH M. KNIGHT	*Vice President, Chemical Group*
GEORGE L. MAISON, M.D.	*Vice President, Ethical Drug Group*
HAMER WILSON	*Vice President, Tupperware*
BENJAMIN H. DORMAN	*Secretary and General Counsel*

THE YEAR IN BRIEF

	1962	1961
OPERATIONS		
Net Sales	**$280,850,000**	$260,880,000
Net Earnings	**$ 6,318,000**	$ 9,581,000
Per Share	**$1.40**	$2.13*
NUMBER OF SHARES		
Average during year	**4,524,991**	4,495,655*
Outstanding at year end	**4,528,222**	4,521,984*
AT YEAR END		
Current Assets	**$125,403,000**	$113,158,000
Less: Current Liabilities	**$ 39,375,000**	$ 39,680,000
Working Capital	**$ 86,028,000**	$ 73,478,000
Long Term Debt	**$ 62,984,000**	$ 54,180,000
Stockholders' Equity	**$ 99,970,000**	$ 97,411,000
Per Share	**$22.08**	$21.54*
DIVIDENDS—PER SHARE		
Cash	**$0.50**	$0.50
Stock	**3%**	3%

**Adjusted for three percent stock dividend issued in March, 1962.*

PRESIDENT'S LETTER TO THE STOCKHOLDERS

Sales for the year 1962 were $280,850,000 compared to $260,880,000 for the year 1961, an increase of 7.7 percent. Net earnings of the Company and its consolidated subsidiaries in 1962 were $6,318,000, equal to $1.40 a share, compared with $9,581,000, or $2.13 a share after adjustment for the 1962 stock dividend. Earnings for each of the years include gains of about $840,000 after taxes on certain sales of assets. Slightly larger gains are expected in 1963 and 1964 from the same source.

The current highly competitive condition in the petrochemical industry has caused prices on polyethylene to fall substantially below previous industry estimates. Under these conditions, we decided to charge off in 1962 the entire unamortized balance of our petrochemical pre-production expense. This change reduced 1962 earnings by $540,000, or 12 cents a share.

In addition, 1962 earnings were reduced by start-up expenses and operating losses on the new polyethylene plant and non-recurring costs in connection with polystyrene and fine chemicals all of which amounted to approximately 26 cents a share. Foreign exchange adjustments reduced net earnings by approximately 9 cents a share.

The total of the operating profit for 1962 in all groups of your Company except the chemical group was greater than 1961, before non-recurring charges and exclusive of higher interest expense.

Considering the magnitude of the undertaking, the first year performance of the polyethylene and ethylene plants at Odessa, Texas, which we jointly own with El Paso Natural Gas Products Company, has been highly satisfactory. The polyethylene plant, which operates under a completely new manufacturing process wholly owned by the joint venture, demonstrated its capability to equal or exceed its rated capacity well ahead of schedule and well within budgeted costs. Its versatility offers us a product range broader than originally planned. The resins produced are of high quality and have been well received by manufacturers processing them into various plastic products. In spite of the industry-wide price declines, we currently expect to be operating at a profitable rate before the end of 1963.

Our next important step in the chemical field is the planned expansion of the petrochemical operations at Odessa by the addition of a 30 million pound polypropylene plant jointly announced late in 1962. Propylene will be provided by a relatively minor modification to the existing ethylene plant, giving us low cost propylene and further reducing the cost of ethylene.

Tupperware, our plastic housewares group, is expanding its plants in Belgium and Australia and has a new plant under construction in Canada. We are enlarging our facilities in the United States and abroad for the manufacture of plastic bottles and plastic and metal tubes. These activities are now making increasing contributions to the Company's income.

Our ethical drug group (Riker Laboratories) continues to strengthen its position in the foreign field as well as in the United States. Several new products scheduled for the domestic United States market last year were delayed by new federal regulations requiring additional data on new drug products. We expect that they will be marketed in 1963.

Rexall franchised drug stores are currently supporting Rexall merchandising activities more actively than at any time in the Company's history. Continued progress is expected in 1963 both in the United States and in foreign markets.

During the past year the number of Owl-Drug King stores was reduced from twenty-nine to twenty units. These twenty units are currently earning more dollars than were previously earned by the twenty-nine stores. A similar program is now being undertaken with respect to Liggett drug stores where we aim to reduce the number of stores and to improve our total dollar profits. When this program is completed we will have approximately halved our retail investment. Provision has been made in 1962 for estimated losses to be incurred as a result of this retail reorganization program by a direct charge to retained earnings in the amount of $1,650,000 after taxes.

The Company continued its regular quarterly cash dividends totalling 50 cents a share during 1962. For the fifth consecutive year, the Board of Directors voted a stock dividend of 3 percent payable March 8, 1963 to stockholders of record on January 15, 1963.

Your Company has been broadly diversified in recent years. Some activities have been more productive than others. During 1962 we have reappraised all of our operations. We have eliminated some with resultant losses and provided for the improvement of others. We are now of the opinion that these moves greatly strengthen your Company's position to take full advantage of its diversification program and growth opportunities.

At the end of my letter last year, I said, "We believe that 1963 will begin to bear the fruits of the broadly expanded facilities of your Company." Despite the present price situation in polyethylene we repeat this prediction with even greater confidence and believe 1964 will show still further improvement.

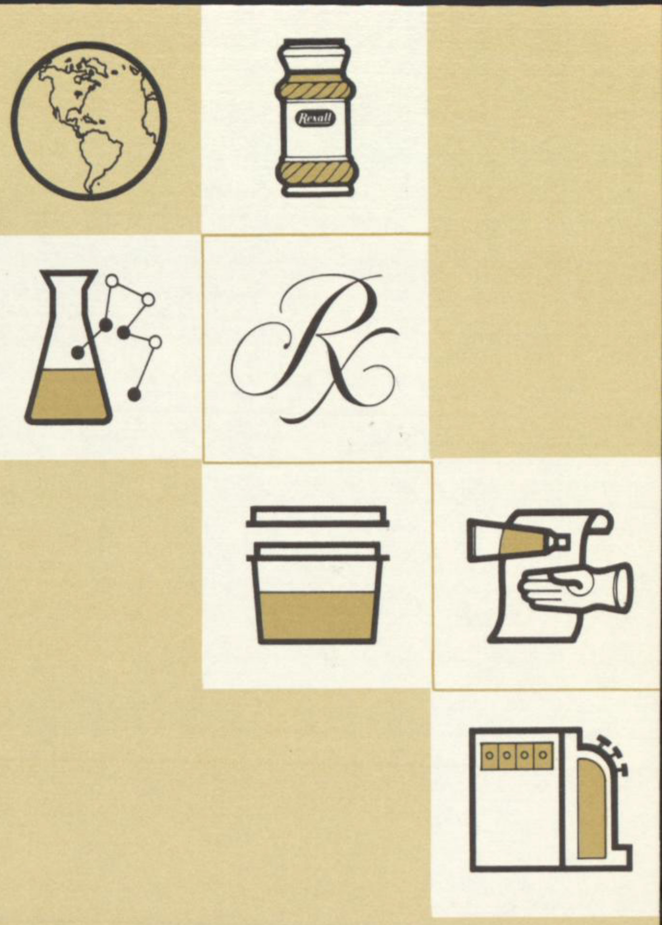
Respectfully submitted,

Justin Dart

March 19, 1963

JUSTIN DART, *President*

REVIEW OF WORLD-WIDE OPERATIONS



PROPRIETARY DRUGS

The proprietary group is made up of Rexall Drug Companies in the United States, Canada, England, Ireland and South Africa which manufacture and market drug store products under the Rexall brand name and under other brand names which are owned by Rexall. During 1962, this group had the highest sales volume of any year in its history.

REXALL DRUG COMPANY, U. S.

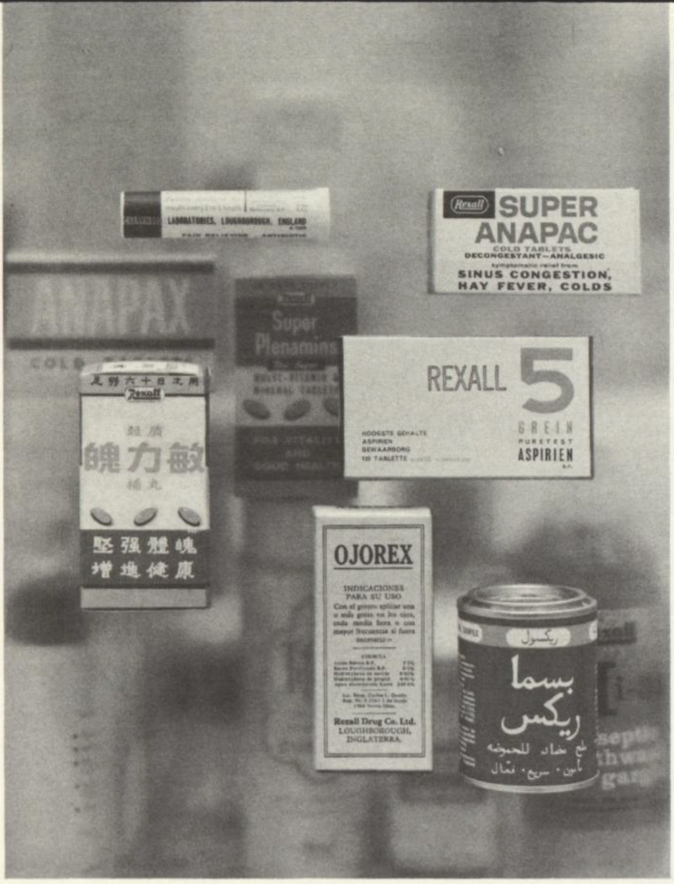
The largest unit of the proprietary group is the Rexall Drug Company, U. S. At its laboratories in St. Louis, Rexall Drug Company manufactures a complete line of generic pharmaceuticals, proprietary drugs and cosmetics. Generic pharmaceuticals are pharmaceuticals marketed under their chemical names; proprietaries are drugs that are advertised to the public. These products are distributed through 10 warehouses to the nearly 11,000 franchised Rexall dealers in the United States—the familiar orange and blue drug stores that are in almost every community in the nation.

Rexall Drug Company also offers its dealers sundries and other drug store merchandise bought to specification from other subsidiaries of the parent company and from outside suppliers under the Rexall brand.

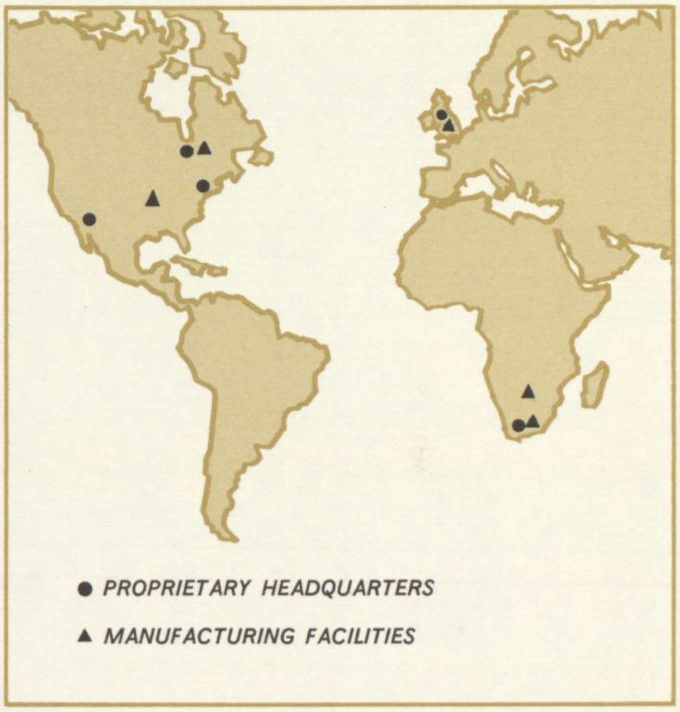
A newly developed organizational structure was put into effect during 1962. New product development and the implementation of new marketing and advertising techniques all helped to achieve 1962's record sales.

The American drug store is facing increased competition from discount stores, food stores and other non-drug outlets. Rexall dealers have come to recognize the threefold value of the Rexall franchise in meeting this competition. Of most importance, Rexall provides advertised promotional plans for store level activity on a year around basis. In addition, the Rexall Drug Company both actively promotes the importance of the drug store and offers the only nationally advertised line of products sold exclusively through drug stores. As a result, Rexall's franchised dealers are increasing their sales of exclusive Rexall products.

Important new products introduced in 1962 were Vapure, an aerosol medicated vaporizer, Rexall Timed Action Cold Capsules, Day and Night Cold Tablets, Vitamin C with Sunkist Citrus Bioflavonoids, Rexall Antacid Gel and Rexall Medicated Body Massage Lotion. Five additional products are being introduced early in 1963. Super Plenamins, the largest selling multiple vitamin and mineral product sold exclusively in drug stores, continued to be an important factor to Rexall. New products, packaging and promotional efforts created a rise in cosmetic and toiletry sales.



Manufacturing facilities on three continents produce proprietary drug store products for sale around the world.



Early in 1963, the Rexall franchise was further solidified at an International Convention of Rexall Druggists held at Disneyland, California, which Rexall druggists from all over the world attended to commemorate the 60th Anniversary of the Rexall Drug Company. Here, and at four regional conventions, Rexall druggists wholeheartedly endorsed the Company's plans and promotions for 1963.

A program to improve manufacturing facility efficiency through the acquisition of new and better equipment continued in 1962. The increased capacity and quality of this modernized plant has enabled the Company, through its Carnegie Laboratories division, to accept manufacturing contracts from outside companies, resulting in reduced overhead costs and more efficient utilization of equipment.

Carnegie Laboratories contracts for the manufacture of pharmaceuticals for many of America's leading pharmaceutical firms, and produces private label brands of drug, toiletry, household products and automotive chemical specialties for a number of leading proprietary and retail outlets.

In 1963, the Company will continue to emphasize its program of research and development of new drug store products and its plan of aggressive merchandising. Major emphasis will be given to product packaging, including further conversion to modern plastic containers. The Company's program of extending franchises to selected retailers will continue to expand the market for Rexall brand products.

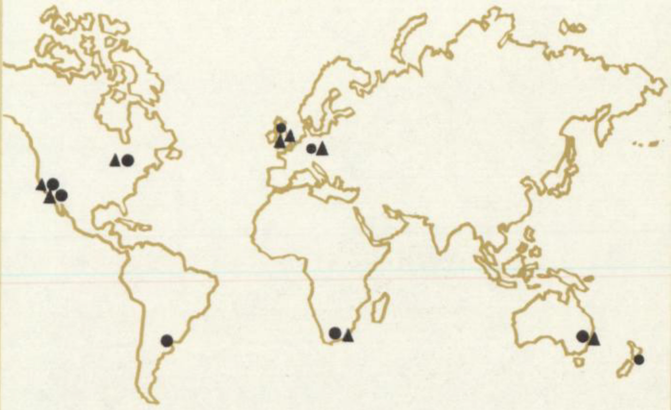
REXALL DRUG COMPANY, INTERNATIONAL

The Company is actively marketing Rexall brand products throughout Canada, the United Kingdom, other Commonwealth nations, and in Africa, Asia and several nations of the Far East.

In Canada, Rexall Drug Company, Ltd. sells Rexall brand products through the franchise system to approximately 1,500 independently owned Rexall drug stores. The progress of this subsidiary parallels the parent company in the United States.

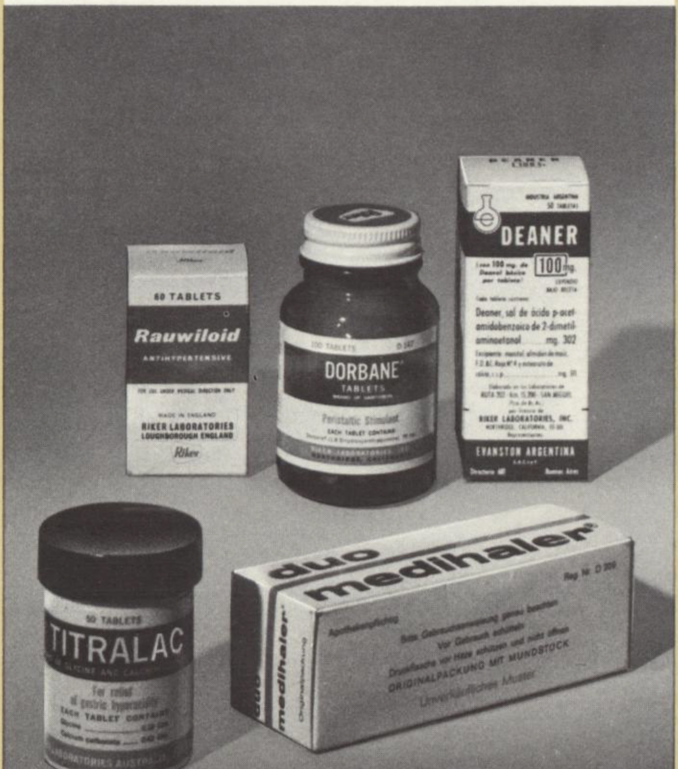
In 1962, an extension of the Company's world-wide marketing operations was the opening of a facility in Dublin, Ireland. Test-marketing operations are currently underway in the European Common Market and the "outer seven." These economic alliances represent an expansion opportunity for the Company's products in Western Europe.

By the close of 1962, hundreds of Rexall brand products were being sold in 50 countries. The Company's plans for 1963 include still further expansion in Western Europe, Africa and Australia.



● ETHICAL DRUG HEADQUARTERS

▲ MANUFACTURING FACILITIES


60 TABLETS
Rauwiloid
ANTIHYPERTENSIVE
RIKER LABORATORIES
LOUGHBOROUGH ENGLAND
DORBANE
TABLETS
Peristaltic Stimulant
DEANER
100 mg.
EVANSTON ARGENTINA
60 TABLETS
TITRALAC
duo
medihaler
ORIGINALPACKUNG MIT MUNDSTOCK

Important ethical drug products sold around the world include: Medihaler, for relief of bronchial asthma; Rauwiloid, for hypertension; Titralac, an antacid; Deaner, a non-toxic anti-depressant; and Dorbane, a laxative.

ETHICAL DRUGS

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The ethical drug group includes those world-wide companies manufacturing and marketing ethical drug specialties under the Riker label. These products are manufactured in the United States, England, Canada, South Africa, Australia and West Germany, and sold in 57 countries around the world.

The Riker companies are strong because their sales are neither concentrated in one product nor diffused over many lines. Six product groups accounted for approximately 80% of Riker sales during 1962.

1963 saw the introduction of Medihaler-Duo, a significant step forward in the relief of the spasms of asthma as is attested to by reports of scientific tests abroad and in the United States. "Duo" brings to the asthmatic a more enduring relief without increasing side actions and without sacrificing immediate response. Thus it should further expand Riker's largest product line, the medicinal metered dose aerosols. An immediate-acting form of Riker's popular muscle relaxant, Norflex, was introduced and well received. The Norflex line has grown steadily since 1959 and is one of the largest selling products.

Several new products have been developed and are ready for market, but have been delayed by new federal regulations requiring additional data on new drug products. Clearance is expected in 1963.

RESEARCH

Riker continues to expand its basic research facilities in the United States, and in 1962 established research laboratories at Welwyn Garden City, England, stressing pharmacology, medicinal organic chemistry and microbiology. Further expansion of these facilities is planned in 1963. Continued investment in research and development is planned to assure the flow of new drug products to market.

MANUFACTURING

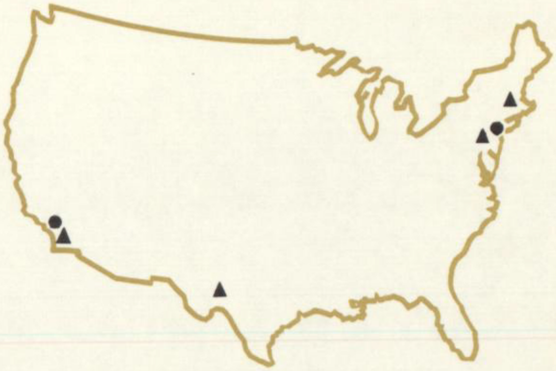
Northridge, California, and Loughborough, England, are the key manufacturing centers. Initial production of several ethical drug products in Argentina will start in 1963, permitting the expansion of Riker activities into other South American countries.

On December 1st, the chemical manufacturing facilities of Carnegies at Welwyn Garden City, England, began to be incorporated within Riker laboratories in order to provide chemical manufacturing and research laboratory services. Production at Carnegies consists of organics including adrenaline derivatives, organic iron salts and alkaloids from rauwolfia.

MARKETING

Sales volume for both new and existing products will be increased by expanding the force of detail men in existing markets and opening new foreign markets. As the need arises, the Company will install manufacturing facilities in other key locations abroad.

A portion of the petrochemical complex at Odessa, Texas, operated jointly by the Rexall Chemical Company and The El Paso Natural Gas Products Company.



● *CHEMICALS HEADQUARTERS*

▲ *MANUFACTURING FACILITIES*

Rexall expanded its activities in the research, manufacture and marketing of major petrochemical resins used in the manufacture of varied plastic products. This program is a joint venture with El Paso Natural Gas Products Company.

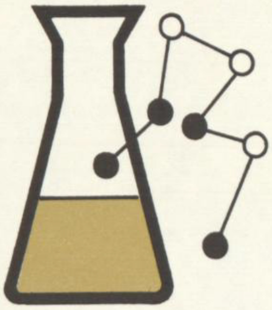
POLYETHYLENE

The new high pressure polyethylene plant at Odessa, Texas moved ahead on schedule in 1962 and should achieve its maximum rate of capacity sometime in 1963. It is designed to produce 120 million pounds annually. In the first full year of operation, the polyethylene plant as well as the ethylene plant which supplies it, exceeded expected performances. With speed unprecedented in the industry, Rexall Chemical Company developed and commenced manufacturing a line of seventeen quality low density (high pressure) polyethylene resins under the El Rex brand. Sales were in the millions of pounds for each of the major resins.

The market for polyethylene showed a 23% growth in 1962 on top of a substantial growth in 1961. To meet the major marketing opportunities, Rexall is producing a high quality line of film resins for packaging, overwrap and garment bags, and two excellent blow molding resins for the growing detergent bottle market. The El Rex injection molding resins have a wide range of uses. Included among them is a fast molding resin which gives desirable flow lines for the special pattern effects currently popular in the packaging field.

The Company developed two new extrusion coating resins for coating paper, milk cartons, cellophane and aluminum foil, a market that grew 50% in 1962.

CHEMICALS



POLYSTYRENE

Rexall sales of polystyrene, a plastic popular in toys and housewares, increased during the year. Company plants in Holyoke, Massachusetts, and Santa Ana, California broadened operations with the production of high impact polystyrene, a product especially resistant to breaking under impact, thus creating additional markets in such fields as instrument housings, drinking cups, appliances and housewares.

POLYPROPYLENE

Plans have been announced for adding to the present Odessa petrochemical complex by constructing in 1963 a plant capable of producing 30 million pounds of polypropylene annually. It is also planned to modify, at a relatively minor investment, the now existing olefin (ethylene) plant to produce the necessary raw materials. These additions will provide polypropylene at the lowest possible raw material and operating costs. They will also contribute to a further reduction in the cost of ethylene.

The total polypropylene market grew 77% in 1962 and will continue to grow rapidly as new uses for this material continue to be developed in the fields of luggage, furniture, appliances, packaging film, electrical insulation, upholstery and fabrics.

RESEARCH, DEVELOPMENT AND MARKETING

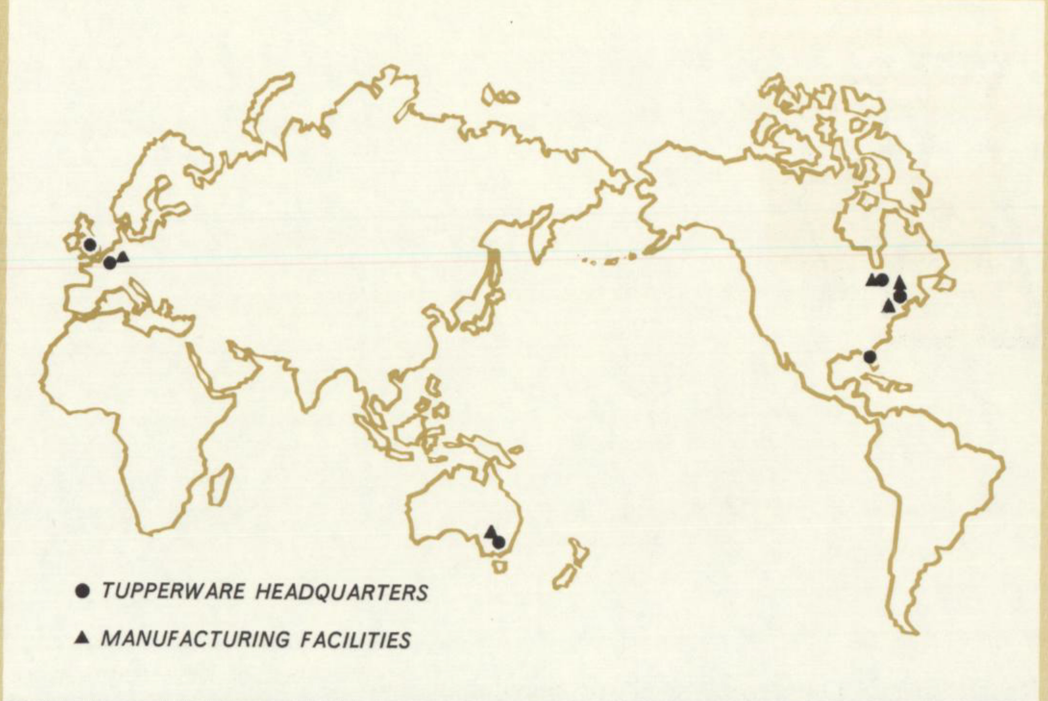
To develop applications of various petrochemicals as well as manufacturing techniques, Rexall, for the joint venture, operates the Paul Kayser Research and Sales Development Center in Paramus, New Jersey. A number of new resins were developed in 1962 for film, extrusion coating, injection and blow molding markets. It was at Paramus that the processes were developed which will be used in the new polypropylene plant under construction at Odessa, and the new high impact polystyrene operation at Holyoke.

In major use areas, the sales of resins achieved targets in both the United States and foreign countries. Plastic resins are now being sold to every major plastic-consuming country in the Free World by men who specialize in these markets. Various Rexall companies now utilize and will continue to utilize a growing amount of the production of the petrochemical facilities.

Petrochemicals are a growing but highly competitive industry and only through continued research and product development efforts will Rexall be able to meet the stringent quality requirements which will insure the maximum price. This research and development effort is the very core of the Company's competitive position. New products having 'plus' properties must continually be designed in order to insure a permanent place in the market.

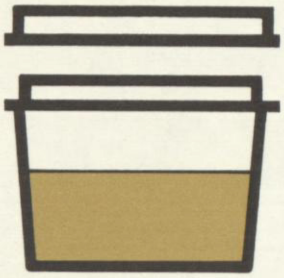
FINE CHEMICALS

Production and marketing of the ingredients used in aspirin and other fine pharmaceutical chemicals are performed at Kearny, New Jersey. Production from this facility is used by Rexall's proprietary and ethical drug operations. Much of the output is sold to other leading drug manufacturers, making Kearny a major source for salicylates and choline salts.


● TUPPERWARE HEADQUARTERS
▲ MANUFACTURING FACILITIES

Tupperware is sold in 10 countries around the world by trained dealers who demonstrate the versatility of the products at Tupperware Parties. Demonstrations are given in many different languages showing millions of homemakers how Tupperware saves them time, food and money.

TUPPERWARE



Tupperware Company, the world's largest producer of plastic housewares, manufactures and markets products sold exclusively by the home party selling method through a network of independent dealers, managers and distributors. Tupperware is famous for its patented seal, making its products air and water tight, and thus preserving the freshness and flavor of foods for long periods. Many new items were added to the Tupperware line during the year.

MANUFACTURING

The successful pattern of growth set by Tupperware in the United States is being duplicated in other areas of the world. In 1962, three new foreign manufacturing locations produced Tupperware products for sale in ten different countries.

Manufacturing plants at Erembodegem (near Brussels), Belgium and Melbourne, Australia, swung into full production in 1962. Construction of Canadian manufacturing facilities is now under way and is expected to be in operation by mid-1963.

At the Blackstone, Massachusetts plant, which is the largest injection molding facility in the United States, an important new addition was put into full production, increasing the total capacity.

TUPPERWARE HOME PARTIES

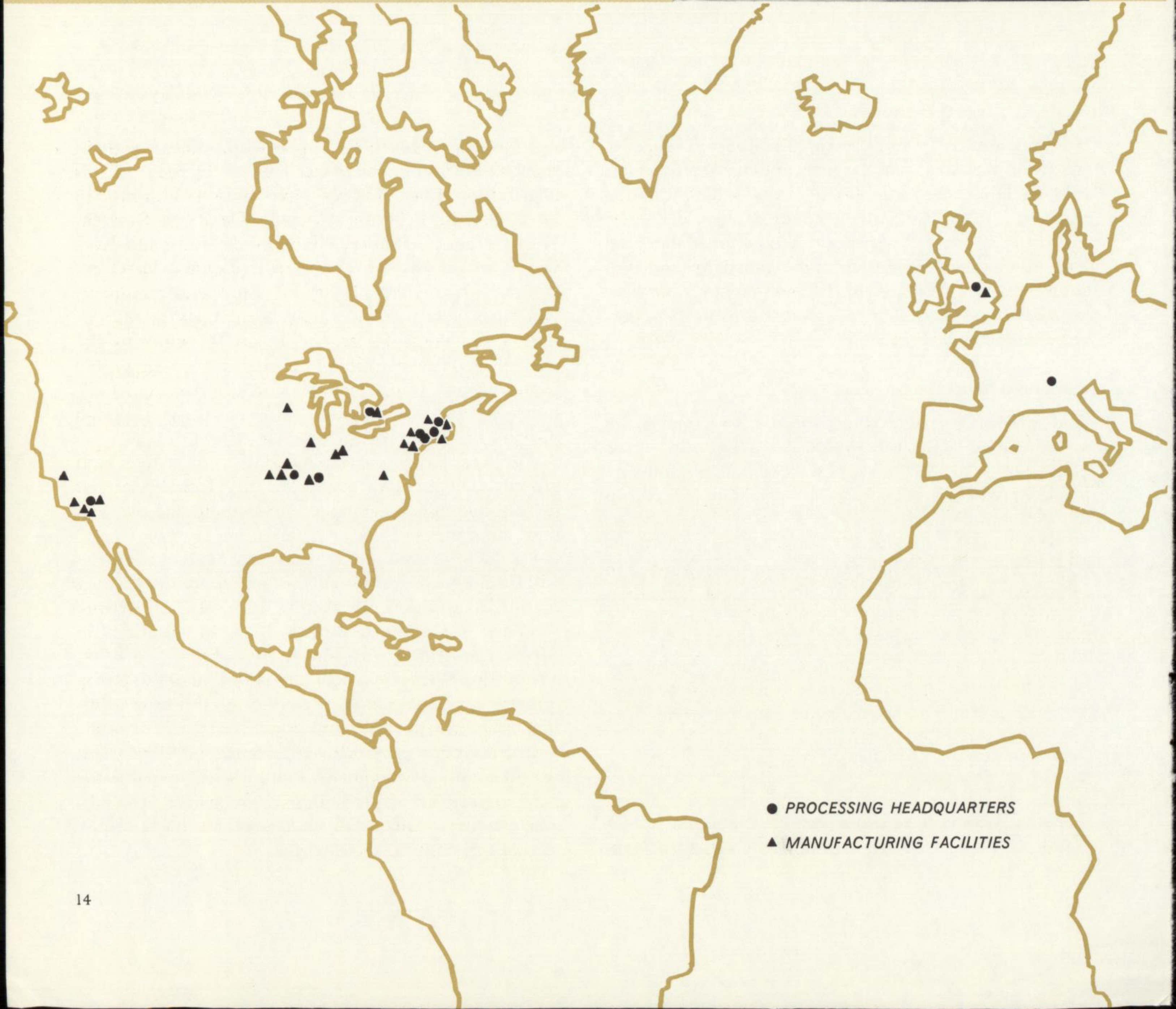
Through Tupperware Home Parties, the plastic housewares products are being sold in many areas throughout the world. In 1962, Tupperware sales growth in the United States was marked by an increase in this distribution force. Offices have been established in Great Britain, Belgium, Australia, Denmark, Sweden, West Germany, France, Netherlands, Italy and Norway. Central offices are located in London for Great Britain, and in Brussels for the European continent. Nationals of each country have been given the responsibility for sales. These people are brought to the United States for training. From time to time, key people from Tupperware's manufacturing headquarters, and from its sales staff, consult with foreign distributors and coordinate their efforts.

The same home party plan that brought the rapid growth of Tupperware sales in the United States is finding increased acceptance throughout the overseas marketing areas.

Further expansion in the Common Market countries will be undertaken through the facilities of the Brussels plant. In addition, marketing tests of Tupperware products are planned during 1963 for countries in Africa, the Middle East and the Far East.

Continued rapid growth should be maintained by intensifying promotional activities, establishing additional facilities for the training of capable distributors, and opening new world-wide markets. Continued research and development activities will expand the Tupperware line by creating new quality products. The company will establish manufacturing facilities as markets continue to develop.

Seventeen different locations manufacture a variety of products for packaging. Shown here are samples of plastic containers, collapsible metal tubes and plastic film.


● PROCESSING HEADQUARTERS
▲ MANUFACTURING FACILITIES

PROCESSING GROUP: PACKAGING

Rexall's packaging operations include the manufacture and marketing of plastic and metal containers and plastic film. The United States and Canadian plastic container facilities and all film operations are divisions of Consolidated Thermoplastics Company, in which El Paso Natural Gas Products Company has a substantial minority interest. Consolidated Thermoplastics Company is operated by Rexall.

PLASTIC CONTAINERS

Plastic bottles, jars and specialty containers are manufactured under the Imco name. The rate of sales, which doubled in 1961, again had a large growth in 1962. Three major developments have helped sales growth.

First was the development of a container for the large household bleach and detergent market. Another was the creation of capabilities to manufacture unusual shaped containers that offered a secondary use to the consumer. Use of these specialty containers has mushroomed, especially in the cosmetics and toiletries field. The development and installation of automatic container decorating and printing machinery provides continued leadership in this field.

Plastic containers are manufactured in eight plants in the United States, and one each in Canada and England. Plans are underway for the enlargement of these facilities in the near future.

Concentration is placed on high quality containers that meet rigid specifications of material, design and labeling. To insure the highest quality and the newest development, Rexall operates machine research facilities in the United States and Switzerland and maintains an extensive sales organization to provide the best possible service to manufacturers.

PLASTIC FILM

An exceptionally high quality line of plastic film for packaging has been developed, that offers both physical strength and unusual visual clarity. Sales volume showed a marked growth in 1962 and prospects for further sales increases are favorable for 1963. Film is manufactured in California, Wisconsin and Rhode Island, permitting efficient national distribution of film products.

METAL CONTAINERS

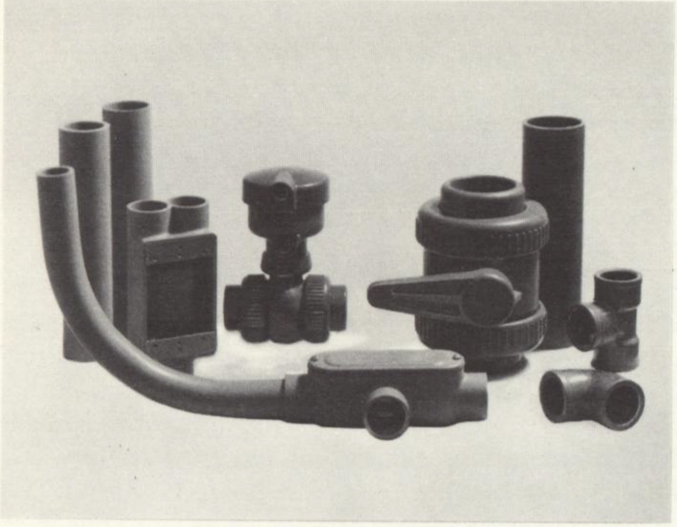
White Metal, wholly-owned by Rexall, produces aluminum and tin collapsible tubes, such as those used for toothpaste, and aluminum cans. Within the last year, the Company completed the engineering work for a new super-mechanized production line for internally lacquered collapsible metal tubes. A new facility for the manufacture of tin tubes was installed.

In the field of research and development, the first samples of a new plastic tube to meet the needs of this rapidly growing market were submitted to the trade. The process being used to manufacture these tubes is undergoing market testing.

NEW PRODUCTS

The packaging industry is expanding its use of plastic devices for multiple packaging of canned goods replacing the conventional six-pack cardboard wrap. Combi-Clip, a device of this type has been designed for greater consumer convenience while providing economical and functional advantages to the manufacturer. This high speed packaging device has been introduced and is scheduled for commercial production in 1964.

PROCESSING GROUP



PLASTIC PIPING SYSTEMS

The Kraloy/Chemtrol Company, a Division of Consolidated Thermoplastics Company, specializes in electrical conduit, pumps, valves and piping systems designed to handle corrosive fluids. Major markets are chemical plants, oil fields and agricultural irrigation systems. Sales volume increased substantially in 1962 and is expected to show continued growth in 1963. New products in the field of polypropylene piping systems should open up new market opportunities.

HOSPITAL, RUBBER PRODUCTS & SPORTING GOODS

The Company's Seamless subsidiary manufactures drug store rubber sundry items, rubber and plastic hospital supplies and rubber athletic goods. In 1962, Seamless introduced a new disposable rubber surgeon's glove, pre-packaged and ready for sterilization.

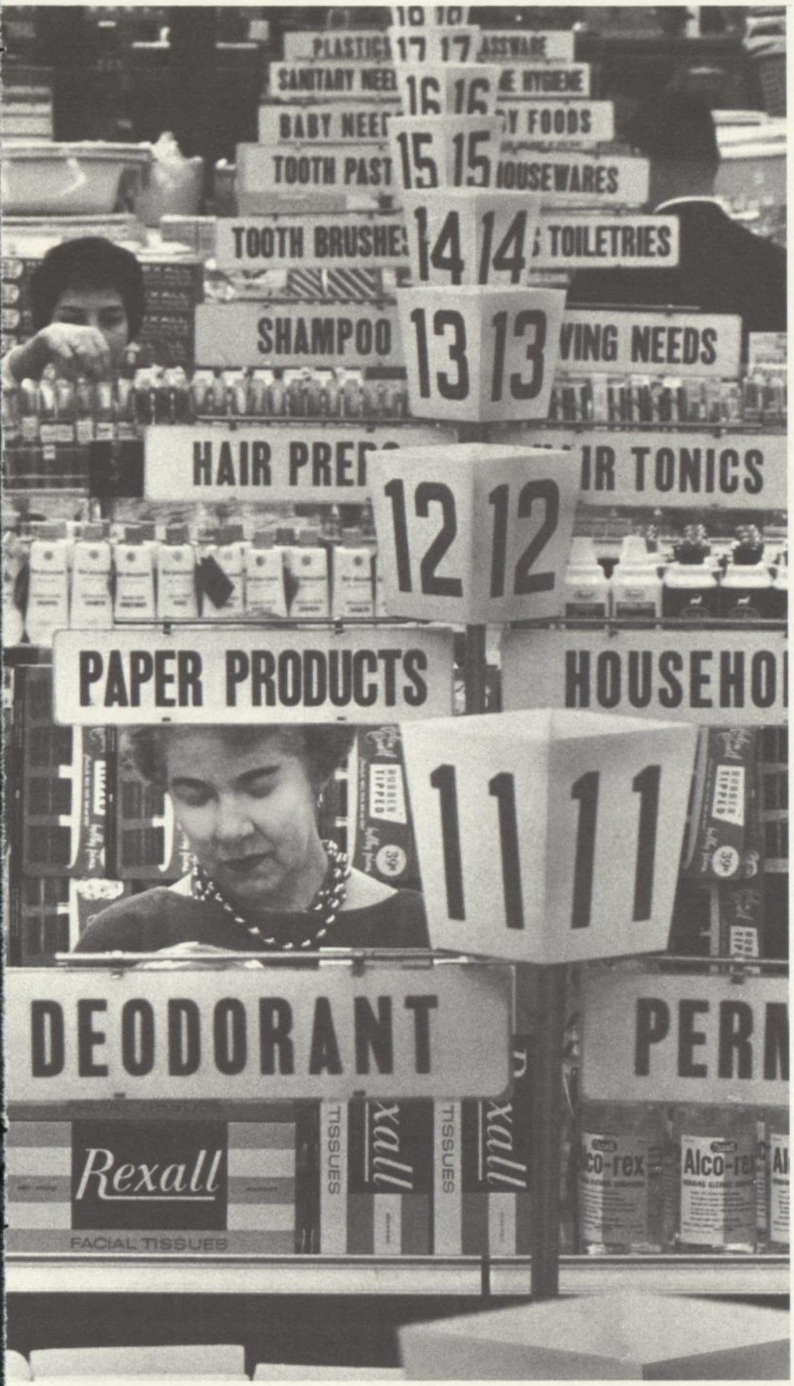
Seamless is also involved in the growing skin-diving market. Equipment worn by the paramedics attending the astronauts during landings at sea were Seamless products. New valves and breathing regulators for the line of skin diving equipment will be introduced in 1963. The inflated bladder that keeps Mercury space capsules afloat after landing is made by Seamless. Additional specialized rubber products for space age projects and military jet aircraft will be introduced in 1963.

Seamless also manufactures corrosion resistant plastic tapes for covering gas and oil transmission pipe lines under the Safe-T-Clad label.

The Absorbent Cotton Company manufactures a complete line of cotton, gauze and bandage products for drug stores and hospitals. In 1962, automated equipment was installed resulting in a substantial improvement in profit performance. Research and development of pre-packaged sterilized surgical dressings for hospital use continues and these products should be in production in 1963.

The United Cotton Products Company of Fall River, Massachusetts, manufacturer of specialized patented abrasive products, is progressing rapidly on the development of new specialized abrasive discs for industrial use.

RETAIL OPERATIONS



OWL-DRUG KING

On the West Coast, the Company reduced its outlets from 29 to 20 and converted to self-service, large volume, super drug stores that receive merchandise on direct shipment from suppliers. The results of this conversion are reflected in a substantial reduction of invested capital and a greatly improved profit performance. Drug King also operates a chain of Gales Coffee Shops.

LIGGETT

The success of the Drug King conversion has led the Company to embark on a similar program for the Liggett Drug Company, operators of drug stores in New England, New York and the Southern states. By reducing outlets to those that fit into a retail chain operation, Liggett should raise the average store volume, reduce investment, improve profit realizations.

REXALL REALTY

By supplying the necessary financial backing, the Rexall Realty plan provides an opportunity for individual pharmacists to qualify as store operators in desirable shopping center locations. Rexall Realty also provides assistance and supervision in store planning, site selection, merchandising and store operations. The Company benefits in that it obtains Rexall franchises in important shopping locations while enjoying a profitable return on investment. Rexall will continue to expand this partnership plan in 1963.

BLUM'S

Blum's famous candies, manufactured in San Francisco, are marketed in its own stores in San Francisco, Los Angeles and New York as well as through selected department stores.

Eleven of the company operated locations in California are combination restaurant-confectionery stores featuring fine foods, bakery products, candies and ice cream specialties. Blum's bakeries, one in San Francisco and one in Beverly Hills, produce fine pastries for company owned stores in their respective areas.

STATEMENT OF FINANCIAL POSITION—December 31, 1962 and 1961

	1962	1961
CURRENT ASSETS		
Cash and short term securities	$ 34,456,000	$ 23,434,000
Accounts and notes receivable, less reserve	34,927,000	35,959,000
Inventories, at cost or market, whichever lower	54,940,000	52,821,000
Prepaid expenses	1,080,000	944,000
	125,403,000	113,158,000
CURRENT LIABILITIES		
Accounts payable	16,320,000	20,654,000
Accrued compensation and taxes thereon	5,610,000	5,516,000
Other accrued expenses	9,576,000	6,737,000
Current instalments of long term debt	2,980,000	1,227,000
Estimated United States and foreign income taxes	4,889,000	5,546,000
	39,375,000	39,680,000
Working capital	86,028,000	73,478,000
INVESTMENTS, PROPERTIES AND OTHER ASSETS		
Investment in United States subsidiaries not consolidated, at cost less reserve	2,830,000	2,740,000
Other receivables, deposits and investments, less reserve	4,964,000	4,379,000
Properties, at cost less accumulated depreciation	63,454,000	60,759,000
Deferred charges	1,307,000	2,770,000
Intangibles, at cost less amortization	11,397,000	12,176,000
	83,952,000	82,824,000
Working capital and all other assets	169,980,000	156,302,000
LONG TERM DEBT AND OTHER DEFERRED LIABILITIES		
Long term debt, less current instalments	62,984,000	54,180,000
Deferred United States and foreign income taxes	5,100,000	3,250,000
Minority interest in consolidated subsidiaries	1,926,000	1,461,000
	70,010,000	58,891,000
Total net assets representing stockholders' equity	$ 99,970,000	$ 97,411,000
STOCKHOLDERS' EQUITY		
Capital stock of Rexall Drug and Chemical Company Authorized 10,000,000 shares, par value $2.50 each Issued 4,533,849 shares in 1962 and 4,395,871 shares in 1961	$ 11,335,000	$ 10,990,000
Capital in excess of par value per accompanying statement	41,216,000	34,325,000
Retained earnings per accompanying statement (Of the 1962 amount $2,904,000 is reserved for a 3% stock dividend of 135,847 shares payable March 8, 1963)	47,471,000	52,148,000
	100,022,000	97,463,000
Less cost of reacquired capital stock, 5,627 shares in 1962 and 5,595 shares in 1961	52,000	52,000
Total stockholders' equity	$ 99,970,000	$ 97,411,000

See accompanying notes to financial statements.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

	1962	1961
INCOME		
Sales, less returns, allowances and discounts	**$280,850,000**	$260,880,000
Gain on sales of investments and properties	**1,447,000**	1,164,000
Other income	**762,000**	623,000
	283,059,000	262,667,000
DEDUCTIONS		
Cost of goods sold	**172,658,000**	159,953,000
Selling, distribution, promotional and administrative expenses	**86,318,000**	77,730,000
Depreciation	**6,804,000**	4,473,000
Interest on indebtedness	**3,361,000**	1,880,000
	269,141,000	244,036,000
Earnings before taxes on income	**13,918,000**	18,631,000
Provision for United States and foreign taxes on income	**7,600,000**	9,050,000
NET EARNINGS FOR THE YEAR	**6,318,000**	9,581,000
Retained earnings at beginning of year	**52,148,000**	49,255,000
	58,466,000	58,836,000
Deduct:		
Provision for losses to be incurred as a result of the reorganization of certain retail operations, less estimated future tax reductions (Note 4)	**1,650,000**	
Dividends:		
Cash, 50¢ per share	**2,247,000**	2,130,000
Stock, 3%, 131,745 shares at $53.875 per share paid in March 1962 and 123,197 shares at $37.00 per share paid in March 1961	**7,098,000**	4,558,000
	10,995,000	6,688,000
Retained earnings at close of year	**$ 47,471,000**	$ 52,148,000

STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	1962	1961
At beginning of year	**$ 34,325,000**	$ 28,741,000
Excess of fair value over par value of capital stock issued as stock dividends, 131,745 shares in 1962 and 123,197 shares in 1961	**6,768,000**	4,250,000
Amount arising in acquisitions of companies in 1961		921,000
Other credits, principally the excess of option prices over par value of stock options exercised	**123,000**	413,000
At close of year	**$ 41,216,000**	$ 34,325,000

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. DETAILS OF STATEMENT OF FINANCIAL POSITION:

	1962	*1961*
Accounts and notes receivable:		
Trade, including subsidiaries not consolidated	$33,539,000	$31,988,000
Others	2,855,000	5,098,000
	36,394,000	37,086,000
Less reserve	1,467,000	1,127,000
	34,927,000	35,959,000
Inventories:		
Raw materials and supplies	9,940,000	9,971,000
Work in process	4,184,000	3,043,000
Finished merchandise	40,816,000	39,807,000
	54,940,000	52,821,000
Properties:		
Land	2,085,000	2,038,000
Buildings and building fixtures	19,705,000	16,998,000
Machinery and equipment	62,664,000	38,203,000
Store fixtures, leaseholds and improvements	8,755,000	9,811,000
Construction in progress	2,352,000	22,048,000
	95,561,000	89,098,000
Less accumulated depreciation	32,107,000	28,339,000
	63,454,000	60,759,000
Intangibles, less amortization:		
Excess of investments in businesses purchased over net assets acquired	6,950,000	7,112,000
Patents, licenses and trademarks, etc.	4,447,000	5,064,000
	11,397,000	12,176,000
Long term debt, less current instalments:		
Unsecured notes, 3⅜% to 5¾%, due in instalments to 1982	57,849,000	50,725,000
Real estate and other obligations	5,135,000	3,455,000
	$62,984,000	$54,180,000

Principal payments due in—1963 $2,980,000
1964 $3,416,000 1966 $5,048,000
1965 $3,409,000 1967 $4,465,000

2. BASIS OF CONSOLIDATION: All significant domestic and foreign subsidiaries are consolidated. The minority interest in income and losses of subsidiaries not wholly owned is not material in amount. Accounts of foreign subsidiaries are translated into U.S. dollar equivalents at quoted year end exchange rates except for property accounts and related items for which historical exchange rates are used. At December 31, 1962 net assets of such subsidiaries amounted to $16,735,000 of which $10,820,000 were net current assets. Undistributed 1962 earnings of consolidated foreign subsidiaries amounted to $927,000. Income taxes which may be incurred upon distribution of earnings of subsidiaries are provided when the distributions are made.

In 1962 and prior years Rexall sold a minority interest in the stock of a subsidiary to El Paso Natural Gas Products Company and has granted options for the sale of additional shares over a two year period ending December 31, 1964 at which time El Paso will own a 50% interest if all options are exercised.

3. CHANGE IN ACCOUNTING: The Company changed its method of accounting for petrochemical pre-production expenses to charge off to 1962 earnings the entire unamortized balance of these expenses which were previously being amortized over a five year period. Future pre-production expense will be charged off as incurred. This change in accounting reduced 1962 net earnings by $540,000.

4. REORGANIZATION OF RETAIL OPERATIONS: During 1962 the Company adopted a program to reorganize its retail operations to reduce its investment substantially and to improve efficiency and earnings. Provision has been made in 1962 by a direct charge to retained earnings for estimated losses and expenses to be incurred in the reduction of the number of operating units pursuant to the reorganization plan. This charge after reduction for estimated future tax benefits amounted to $1,650,000.

5. JOINT OPERATING AGREEMENT: The Company and El Paso Natural Gas Products Company are parties to a joint operating agreement whereby each party has an undivided one-half interest in plant and other assets related to the production and marketing of certain petrochemicals. The Company's share of the cost of these facilities is included in property accounts.

6. TAXES ON INCOME: Claims for refund of United States taxes were filed in 1953 based upon the contention that the excess profits tax credits should be increased for the years 1940 to 1945, inclusive. In connection with such claims, waivers have been executed and are still outstanding as to certain such years. While final action has not yet been taken on the claims, the Treasury Department has made protective assessments of additional income taxes for 1942, 1943 and 1944 based principally upon substantial reductions claimed in the amount of income subject to excess profits taxes in those years. If the proposed adjustments giving rise to the protective assessments are approved, the reduction in excess profits taxes will substantially exceed the related income tax assessed, whereas disapproval of the proposed adjustments would substantially eliminate the basis for the additional income tax assessments. No amounts have been included in the financial statements with respect to these claims or the protective assessments.

The Company deducts accelerated depreciation on certain properties for tax purposes. Further, certain process development costs are deducted for tax purposes as incurred. Provision is made currently for taxes which will become payable in future years when book amortization and depreciation, not on an accelerated basis, will exceed amounts allowable for tax purposes. The 1962 provision for such future taxes amounted to $1,550,000 net after reduction for the accounting change referred to in Note 3. In addition, a portion (52%) of the investment credit for 1962 has been deferred to future years. This deferral is not material in amount.

7. STOCK OPTIONS: Pursuant to a stock option plan as amended and approved by the shareholders and under other agreements, a total of 433,908 shares of capital stock of the Company are reserved for purchase by officers and employees under options granted or to be granted. The option price is the market price of the stock on the date options are granted. The options are not assignable and are generally exercisable cumulatively in ratable amounts over a period of ten years. The number of shares in all outstanding options are increased ratably with no change in the aggregate dollar amounts upon payment of stock dividends. Options for 69,175 shares were exercised prior to 1962. A summary of changes during 1962 is set forth below:

	Options Outstanding		*Options Exercisable*	
	Shares	*Amount*	*Shares*	*Amount*
Beginning of year	313,074	$10,664,000	33,664	$1,090,000
Adjustment for stock dividend	10,003		1,005	
Options granted or exercisable	146,250	4,343,000	33,355	1,062,000
Options exercised	(6,683)	(141,000)	(6,683)	(141,000)
Options canceled	(43,436)	(1,402,000)	(2,940)	(117,000)
End of year	419,208	$13,464,000	58,401	$1,894,000

At December 31, 1962 there were 14,700 shares for which options could be granted.

8. EARNINGS AVAILABLE FOR DIVIDENDS: Under agreements covering long term indebtedness $11,100,000 of the $47,471,000 of retained earnings at December 31, 1962 is not restricted as to payment of cash dividends. The agreements impose no restriction on the payment of stock dividends.

9. LEASE LIABILITIES: At December 31, 1962 the Company and its consolidated subsidiaries were committed under some 257 leases of operating real property expiring more than three years after that date with minimum annual rentals of approximately $5,070,000. Approximately one percent of this amount relates to leases expiring more than 25 years after December 31, 1962. Some leases are based upon a percentage of sales and nearly all require the payment of property taxes, insurance and maintenance in addition to the minimum rent. Provision has been made for estimated lease losses on properties no longer operated.

In addition, subsidiary companies have leased (with options to purchase) store fixtures for periods ranging from six and a half years to ten years, in most cases at aggregate basic rentals which over the lease periods approximate the cost of the fixtures plus carrying charges. The total annual rental payable is approximately $1,620,000.

Rentals for transportation equipment leased for periods extending beyond December 31, 1964 amounted to $785,000 per year at December 31, 1962.

10. CAPITAL EXPENDITURES: It is estimated that capital expenditures for 1963 will be somewhat in excess of $15,000,000.

OPINION OF INDEPENDENT ACCOUNTANTS

PRICE WATERHOUSE & CO.

530 WEST SIXTH STREET
LOS ANGELES 14

March 5, 1963

To the Board of Directors of
Rexall Drug and Chemical Company

In our opinion, the statements on pages 18 to 21 present fairly the financial position of Rexall Drug and Chemical Company and its consolidated subsidiaries at December 31, 1962 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting for certain petrochemical expenses as described in Note 3 to the financial statements. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

TEN YEAR FINANCIAL REVIEW

(in thousands of dollars)

FOR THE YEAR	*1962*	*1961*	*1960*	*1959*
Net sales	$280,850	$260,880	$242,557	$227,016
Depreciation	6,804	4,473	3,800	3,520
Taxes on income	7,600	9,050	8,400	8,400
Net earnings	6,318	9,581	9,360	8,753
Net earnings per share	1.40	2.13	2.20	2.11
Cash dividends per share	.50	.50	.50	.50
Stock dividend	3%	3%	3%	3%

AT YEAR END				
Working capital	$ 86,028	$ 73,478	$ 71,641	$ 57,470
Property and equipment (net)	63,454	60,759	35,469	33,081
Total assets	209,355	195,982	158,762	135,865
Long term debt	62,984	54,180	38,698	29,931
Deferred liabilities	5,100	3,250	950	450
Stockholders' equity	99,970	97,411	86,564	72,049
Stockholders' equity per share	22.08	21.54	19.88	17.20
Number of shares of stock outstanding	4,528,222	4,521,984	4,354,355	4,188,028
Number of stockholders	21,948	21,079	20,287	19,151

Earnings per share is based upon the average number of shares outstanding during each year. The number of shares of stock outstanding, stockholders' equity per share, and earnings per share for 1961 and prior years have been adjusted retroactively for three percent stock dividends issued in March 1959, 1960, 1961 and 1962.

1958	*1957*	*1956*	*1955*	*1954*	*1953*
$182,371	$167,567	$155,633	$153,465	$176,138	$189,244
2,437	2,049	1,814	1,929	2,151	2,132
5,300	4,600	4,600	4,850	3,300	3,300
6,305	4,614	4,474	4,066	3,267*	3,156
1.70	1.26	1.19	1.04	.83	.80
.50	.50	.50	.50	.20	.20
$ 55,146	$ 50,475	$ 46,200	$ 47,680	$ 46,252	$ 44,828
26,015	20,162	18,207	17,639	17,869	20,440
119,735	97,083	90,968	89,689	86,868	89,362
31,161	24,354	21,434	22,903	22,702	24,594
59,402	50,551	48,695	47,069	45,362	44,648
15.28	14.12	13.07	12.19	11.53	11.33
3,888,013	3,581,001	3,726,285	3,860,194	3,932,863	3,940,541
16,911	15,852	15,865	15,807	14,688	15,435

**Excluding non-recurring special charges.*

REXALL DRUG AND CHEMICAL COMPANY
Operational Divisions

PROPRIETARY GROUP:
John Bowles, President, Proprietary Group

Proprietary and ethical drugs, toiletries and cosmetics, hospital and rubber products and drug store sundries all sold under the Rexall label:

REXALL DRUG COMPANY
Los Angeles, California
St. Louis, Missouri
REXALL DRUG COMPANY, LTD.
Cooksville, Ontario, Canada
REXALL DRUG COMPANY S. A. (PTY.) LTD.
Port Elizabeth, South Africa
Johannesburg, South Africa
CHARNWOOD LABORATORIES
Loughborough, England

Private label and private formula drugs, toiletries, cosmetics, household and automotive products:

CARNEGIE LABORATORIES
New York, New York
St. Louis, Missouri

ETHICAL DRUG GROUP:
George L. Maison, M.D., President, Ethical Drug Group

Riker products for asthmatic conditions, hypertension, muscular spasms, digestive disorders, depressions and headaches:

RIKER LABORATORIES, INC.
Northridge, California
RIKER PHARMACEUTICAL COMPANY, LTD.
Cooksville, Ontario, Canada
RIKER LABORATORIES
Loughborough, England
Welwyn Garden City, England
RIKER LABORATORIES AFRICA (PTY.) LTD.
Observatory Cape, South Africa
RIKER LABORATORIES AUSTRALIA
Crows Nest, Australia
RIKER LABORATORIES (N.Z.) LTD.
Wellington, New Zealand
RIKER-EVANSTON ARGENTINA S.A.C.I. y F.
Buenos Aires, Argentina
KETTELHACK-RIKER PHARMA GmbH
Borken, West Germany
SOUTHERN CALIFORNIA GLAND COMPANY
Vernon, California

CHEMICAL GROUP:
Ralph M. Knight, President, Chemical Group

Petrochemicals: ethylene, propylene; El Rex brand polyethylene, polystyrene and polypropylene resins:

REXALL CHEMICAL COMPANY
Los Angeles, California
Odessa, Texas†
Holyoke, Massachusetts
Santa Ana, California
Paramus, New Jersey†

Salicylates and other fine chemicals:

REXALL CHEMICAL COMPANY
Kearny, New Jersey

RETAIL GROUP:
Robert T. Beattie, President, Retail Group

Retail drug stores and restaurants:

DRUG KING, INC.
Hollywood, California
LIGGETT DRUG COMPANY
Stamford, Connecticut

Fine candy manufacturing, retailing and restaurants:

BLUM'S
San Francisco, California
Beverly Hills, California

TUPPERWARE HOME PARTIES:
Hamer Wilson, President, Tupperware Home Parties

Plastic Housewares distributing organizations:

TUPPERWARE HOME PARTIES COMPANY
Orlando, Florida
TUPPERWARE HOME PARTIES, LTD.
Cowansville, Quebec, Canada
TUPPERWARE OF AUSTRALIA (PTY.) LTD.
Melbourne, Australia
THE TUPPERWARE COMPANY
London, England
Brussels, Belgium

PROCESSING GROUP
Donald H. Brewer, President, Processing Group

CTP brand plastic film for packaging, insulation and coating:

CONSOLIDATED THERMOPLASTICS-FILM DIVISION*
Paramus, New Jersey
Woonsocket, Rhode Island
Chippewa Falls, Wisconsin
Salinas, California
Santa Ana, California

Plastic bottles, tubes, jars and specialty containers:

IMCO CONTAINER COMPANY*
Kansas City, Missouri
Belvidere, New Jersey
Harrisonburg, Virginia
Cicero, Illinois
Jeffersonville, Indiana
Excelsior Springs, Missouri
Goleta, California
Los Angeles, California
IMCO CONTAINER (CANADA) LTD.*
Cooksville, Ontario, Canada
IMCO CONTAINER COMPANY (ENGLAND)
Golborne, England
SAREX
St. Sulpice, Switzerland

Collapsible metal tubes and cans:

WHITE METAL MANUFACTURING COMPANY
New York, New York
Hoboken, New Jersey
Indianapolis, Indiana
Hawthorne, New Jersey

Plastic piping systems for irrigation, corrosive fluids and electrical conduit:

KRALOY/CHEMTROL COMPANY*
Santa Ana, California

First aid, hospital, rubber and athletic goods:

SEAMLESS RUBBER COMPANY
New Haven, Connecticut
THE ABSORBENT COTTON COMPANY
Valley Park, Missouri

Abrasive industrial products:

UNITED COTTON PRODUCTS COMPANY
Fall River, Massachusetts

Manufacture of plastic housewares including food storage containers, bowls, dishes, combs and brushes:

TUPPERWARE COMPANY
North Smithfield, Rhode Island
Blackstone, Massachusetts
Farnumsville, Massachusetts
TUPPERWARE PRODUCTS COMPANY
Cowansville, Quebec, Canada
TUPPERWARE EUROPEAN
Erembodegem, Belgium
TUPPERWARE OF AUSTRALIA (PTY.) LTD.
Ferntree Gully, Australia

REALTY
Samuel C. Prusky, President

Retail drug store financing:

REXALL REALTY CORPORATION
Los Angeles, California

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†joint venture with El Paso Natural Gas Products Company

**divisions of Consolidated Thermoplastics Company, jointly owned with El Paso Natural Gas Products Company.*

TRANSFER AGENTS

Morgan Guaranty Trust Company of New York, New York

State Street Bank and Trust Company, Boston

Bank of America National Trust & Savings Association, Los Angeles

REGISTRARS

The Chase Manhattan Bank, New York

The National Shawmut Bank of Boston, Boston

United California Bank, Los Angeles

INDEPENDENT AUDITORS

Price Waterhouse & Co.

HEADQUARTERS

Rexall Square, 8480 Beverly Blvd.,
Los Angeles 54, California